

March 16, 2009

final version

Ms. Janette Lopez
Chief Deputy Director
California Managed Risk Medical Insurance Board
1000 G Street, Suite 450
Sacramento, CA 95814

**RE: EVALUATION OF SANTA BARBARA REGIONAL HEALTH AUTHORITY
MEDICAL LOSS RATIO SUBMISSION**

Dear Ms. Lopez:

The Department of Managed Health Care (DMHC) hereby provides the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of Santa Barbara Regional Health Authority (SBRHA) HFP medical loss ratio submission for the period July 1, 2006 through June 30, 2007. This report outlines the project objectives, methodology and results.

- I Objectives: The purpose of the loss ratio evaluation was to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers and reported by SBRHA.

As part of this evaluation, DMHC performed the following:

- A Determined whether 100% of the children who received services paid by SBRHA were enrolled in the HFP at the time the services or capitated coverage were provided
- B Summarized the total capitation and benefit payments within the detailed data provided by SBRHA and compared the total payments to the amount reported on Schedule 6 submitted by SBRHA
- C Summarized the total payments made by SBRHA for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SBRHA on Schedule 6.

To achieve the objectives outlined above, DMHC performed data analysis on information provided by MRMIB and SBRHA and corresponded with management personnel at SBRHA. The primary contacts at SBRHA were Bob Freeman, Deputy CEO, David Ambrose, CFO, Amy Sim, General Accounting Manager, and Rebecca Hudson, Compliance Coordinator. The methodology and results for each of the objectives are described on the following pages.

II Methodology

A Determined whether 100% of the children who received services paid by SBRHA were enrolled in the HFP at the time the services were provided.

- 1 DMHC obtained electronic files containing encounter data (claims payment) for all services provided for the HFP (Inpatient, Outpatient, Pharmacy, etc ...) for the period of July 1, 2006 through June 30, 2007. Additionally, the Department obtained electronic files from MRMIB of all children eligible for services as a SBRHA subscriber during the period of July 1, 2006 through June 30, 2007.
- 2 Using the two files, DMHC compared the Client Index Number (CIN) and Date of Service on SBRHA's files to determine if there were any payments made by SBRHA for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB. The data analysis disclosed that the Plan's data has an insignificant variance to MRMIB's data. No further procedures were performed.

Table 1 – Medical Expenses for individuals that were not listed in the MRMIB file during the service period or not eligible at service date.

Table 1

Claims/Capitation Payments Category	Number of claims/services payments	Dollars (Footnote 1)	Percent Error to Total Category Data (\$ field)
Plan's Capitation, Fee-For-Service, and Pharmacy data total	22,831	\$1,547,084	100.000%
CIN matches but mismatch on month of eligibility	92	\$3,783	0.245%
No CIN matches in SBRHA's database	128	\$3,037	0.196%
Total	220	\$6,820	0.441%

Footnote 1: This analysis represents payments made by the Plan to their contracted providers and not payments made by MRMIB to the Plans.

B Summarized the total benefit payments within the detailed data provided by SBRHA and compared the total payments to the amount reported on Schedule 6 submitted by SBRHA.

Using electronic files and paper documentation received from SBRHA in Section II above, and SBRHA's Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files and paper documentation to the data reported on Schedule 6.

Table 2

Description	Sch 6	Plan Data	Difference	Percent Error
Inpatient Services – Per Diem	\$146,152	\$146,152	\$0	0%
Primary Professional Services – Capitated	\$115,740	\$0	(\$115,740)	100.00%
Primary Professional Services – Noncapitated	\$813,660	\$825,136	\$11,476	1.41%
Other Medical Professional Services – Capitated	\$84,535	\$84,535	\$0	0%
Other Medical Expense – Noncapitated	\$315,520	\$315,520	\$0	0%
Noncontracted Emergency Room and Out-of-Area Expense, not including POS	\$4,426	\$4,426	\$0	0%
Pharmacy Expense	\$151,625	\$151,625	\$0	0%
Other Medical Expense	\$19,690	\$19,690	\$0	0%
Aggregate Write-ins for Other Medical and Hospital Expense	\$105,786	\$105,786	\$0	0%
Total	\$1,757,134	\$1,652,870	(\$104,264)	5.93%

- C Summarized the total payments made by SBRHA for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by SBRHA on Schedule 6

Table 3
Detailed reconciliation of detailed data files to Schedule 6

	CATEGORY	REPORTED ON SCHEDULE 6	BALANCE PER DMHC REVIEW	VARIANCE OVER/ (UNDER)
	Subscriber Months	23,148	23,148	0
1	Premium Payments from State	\$2,057,167	\$2,057,167	\$0
	Affiliated Entities and Nonaffiliated Entities			
2	Incentive Payments to Affiliated Parties	\$0	\$0	\$0
3	Incentive Payments to Nonaffiliated Parties	\$0	\$0	\$0
4	Total Incentive Payments	\$0	\$0	\$0
	Expenses			
5	Inpatient Services - Capitated	\$0	\$0	\$0
6	Inpatient Services - Per Diem	\$146,152	\$146,152	\$0
7	Inpatient Services - Fee for Service/Case Rate	\$0	\$0	\$0
8	Primary Professional Services - Capitated	\$115,740	\$0	(\$115,740)
9	Primary Professional Services - Noncapitated	\$813,660	\$825,136	\$11,476
10	Other Medical Professional Services - Capitated	\$84,535	\$84,535	\$0
11	Other Medical Professional Services - Noncapitated	\$315,520	\$315,520	\$0
12	Noncontracted Emergency Room and Out- of-Area Exp, not including POS	\$4,426	\$4,426	\$0
13	POS Out-of-Network Expense	\$0	\$0	\$0
14	Pharmacy Expense	\$151,625	\$151,625	\$0
15	Other Medical Expense	\$19,690	\$19,690	\$0
16	Aggregate Write-ins for Other Medical and Hospital Expense	\$105,786	\$105,786	\$0
17	Total Medical and Hospital (lines 5 to line 16)	\$1,757,134	\$1,652,870	(\$104,264)
A	Gross Profit	\$300,033	\$404,297	
B	MEDICAL LOSS RATIO	85.42%	80.35%	

III Summary of Findings

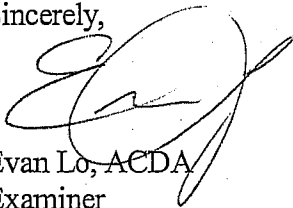
- A **Medical and Hospital Costs** – The capitated payment review disclosed that \$115,740 charged to Primary Professional Services – Capitated cannot be supported by any SBRHA's documentation; thus, the amount is removed from Schedule 6. Per SBRHA, SBRHA pays primary care providers a case rate per member per month. However, SBRHA cannot provide any documentation to support the amount charged during the examination year.
- B **Medical and Hospital Costs** - Database analysis disclosed higher payments to Primary Professional Services-Noncapitated of \$11,476.

IV Limitations

This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by SBRHA on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call Evan Lo, DMHC Examiner, with any questions pertaining to this report.

Sincerely,



Evan Lo, ACDA
Examiner

Division of Financial Oversight

cc: Deborah Simmons, Federal Compliance Unit Manager, MRMIB
Mark Wright, Chief Examiner, DMHC
Stephen Babich, Supervising Examiner, DMHC